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ARE YOU UNDERPAID?

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MARCH 19, 1984 VOL. 109, NO. 6

FORTUNE

Stan Zagorski's cover painting visually poses the question: How do U.S. executives measure up against their counterparts elsewhere in terms of compensation? For answers, see page 20.

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ARE YOU UNDERPAID?

American managers tend to get more cash than their foreign counterparts, but come up short on nifty perks such as chauffeured cars. This pattern may not last for long, though. Foreign salaries have been rising faster than those in the U.S. ■ *by Lisa Miller Mesdag*

IS THE AMERICAN EXECUTIVE underpaid? He probably thinks so: just look at that sweet deal he pulled off for the company last week, and then to find out over lunch that old Joe two offices away is taking down that much more—it's a crying scandal. Actually, he can put away his handkerchief. By world standards, managers in the U.S. are doing okay. Others may live a bit better, but Americans get paid more than anybody but the Swiss and Germans.

In cash compensation, American executives up and down the corporate ladder generally make more than their foreign counterparts. Since their compensation plans often include stock options and incentives based on performance—which have only recently begun to be offered abroad—they also have a greater opportunity to get rich. When you take into account non-cash perks, however, international comparisons become trickier.

Consider, for example, the plight of the Portuguese executive whose salary amounts to a measly $25,000 a year. He has a maid, a washerwoman, and a part-time gardener. His company furnishes him with a car and gas, a housing allowance, and an expense allowance of $450 a month—no receipts necessary. It picks up the tab for his home phone bills and even an occasional home repair bill as well. The only rub: not many executives in Portugal make as much as $25,000 a year; one who does may well be the chief executive officer of his company and is probably the scion of a wealthy family anyway.

Businessmen around the world are increasingly interested in exploring such comparisons. More and more, they find themselves doing business on a global basis—competing with a company from a foreign country, or entering into a joint venture with one. The recent strength of the dollar, too, has made the salaries of American executives seem all the more prepossessing. What's ironic is that just when managers begin to look at international differences in pay, compensation practices between countries have begun to become more alike.

Some distinctions remain clearcut. When it comes to chief executives, those in America's largest companies are far and away the highest paid in the world. It's not just that their base salaries are heftier. The big difference is those bonuses and stock options. Even Swiss and West German companies, which pay the world's highest salaries in some less exalted managerial categories (see table, next page), don't come close in paying off the C.E.O. Says Rudolf Mang, a business writer for the West German magazine *Capital*: "A German manager can only dream about an income of $2 million, which the president of Apple Computer earns." In 1982 at least 85 American chief executives earned more than $1 million. In contrast, the highest-paid foreign bosses rarely earned more than $500,000. Exceptions exist—Cesare Romiti, managing director of Fiat, for example—but are limited.

Even below the chief executive officer the U.S. has more managers pulling down big salaries than any other country. One reason: company size is a major worldwide determinant of pay. Since American companies are on average bigger than foreign ones—about half of the 50 largest industrial corporations in the world are American—U.S. executives have more opportunities to make big bucks than their foreign counterparts.

Further down the executive ladder, if you look just at pay, the American manager still tends to come out ahead. Pay differentials between executives at different levels in an American company are smaller than those in European companies. Hans Ullstein, a partner in the executive recruiting firm of Ward Howell International, points out that the chief financial officer in a big European company typically makes three times as much as the executive immediately below him. In an American company, he says, the ratio would be more on the order of 1.5 to 1. On the bottom rung as well, aspiring executives tend to fare better in the U.S. Ullstein cites the example of a Harvard MBA who joins a bank at a starting salary of $45,000. That's probably one-third of what his boss, the vice president of the consumer-lending division, is making. "In Europe," says Ullstein, "no one starts at one-third of his boss. It's always one-fifth to one-sixth."

A RECENT SURVEY by the Japan Economic Institute found that while American companies try to base an executive's salary on his ability to produce profits for the firm, most Japanese companies say that the balance between those who direct the firm and its employees is critical, and that they would not want too wide a gap in pay. Consequently, salaries of Japanese chairmen and presidents, which range from $50,000 to $250,000 depending upon company size, are well below comparable American salaries.

If a Japanese executive doesn't like his salary, he can jolly well lump it. Says Heatner Bowker, a compensation consultant at the Executive Compensation Service U.K., a subsidiary of Wyatt Co.: "A market rate for a job doesn't exist in Japan. The Western world's version of supply and demand doesn't apply." An American company in dire need of a top-notch marketing man might be willing to pay almost anything to get one; in Japan they grow their own. Says George Baird, a Hay Group partner who opened the firm's Tokyo office: "In the U.S., you're a marketing man and you can sell your skills. In Japan, you're a Mitsubishi man who happens to be in marketing. Before that you may have been in production and before that you may have been in finance."

Yet while the Japanese executive's cash remuneration is modest by American standards, he is comfortable knowing that the company will take care of him. Japanese pay

British companies *started furnishing executives with cars and sometimes chauffeurs when high tax rates made raises pointless. Taxes are lower now, but executives still expect those vehicular perks.*

PHOTOGRAPH BY JOHN BULMER

EXECUTIVE COMPENSATION FOR:

COUNTRY (1981 per capita GNP) in thousands	YEAR	MIDDLE MANAGERS TOTAL CASH COMPENSATION Before tax in thousands	MIDDLE MANAGERS TOTAL CASH COMPENSATION After tax in thousands	UPPER MIDDLE MANAGERS TOTAL CASH COMPENSATION Before tax in thousands	UPPER MIDDLE MANAGERS TOTAL CASH COMPENSATION After tax in thousands
U.S. ($12.5)	**1983**	**$65.0**	**$54.1**	**$112.0**	**$85.1**
	1981	$58.0	$49.1	$112.0	$88.5
	1979	$44.0	$38.5	$96.0	$74.8
Switzerland ($17.2)	**1983**	**$73.7***	**$55.2**	**$130.9***	**$91.6**
	1981	$68.1*	$51.4	$125.6*	$88.4
	1979	N.A.	N.A.	N.A.	N.A.
West Germany ($13.5)	**1983**	**$58.0**	**$41.0**	**$117.4**	**$70.9**
	1981	$56.5	$40.6	$120.5	$72.9
	1979	$62.4	$43.2	$124.2	$74.3
France ($12.1)	**1983**	**$49.0**	**$43.9**	**$89.3**	**$74.9**
	1981	$53.4	$47.9	N.A.	N.A.
	1979	$55.5	$49.3	$93.4	$77.8
Canada ($11.2)	**1983**	**$48.6**	**$36.9****	**$80.2**	**$55.7****
	1981	$46.5	$35.5**	$82.2	$56.8**
	1979	$33.5	$27.1**	$57.6	$42.5**
Brazil ($2.2)	**1983**	**$40.9**	**$27.1**	**$79.2**	**$42.7**
	1981	$33.7	$23.2	$67.7	$41.5
	1979	N.A.	N.A.	N.A.	N.A.
Italy ($6.8)	**1983**	**$40.1**	**$30.1**	**$58.6**	**$42.6**
	1981	$37.4	$28.4	$63.0	$43.6
	1979	$30.5	$23.9	$55.5	$41.4
Australia ($11.2)	**1983**	**$38.6**	**$24.9**	**$63.9**	**$34.9**
	1981	$25.3	$18.4	$43.7	$26.9
	1979	N.A.	N.A.	N.A.	N.A.
Spain ($5.8)	**1983**	**$33.9**	**$27.4**	**$51.6**	**$38.1**
	1981	$38.6	$30.5	$60.1	$42.3
	1979	$40.1	$31.4	$71.6	$47.5
U.K. ($9.0)	**1983**	**$33.2**	**$26.0**	**$58.8**	**$41.0**
	1981	$33.5	$26.0	$57.6	$40.4
	1979	$33.7	$26.5	$58.9	$41.0
Japan ($10.3)	**1983**	**$29.6***	**$25.6**	**$39.0***	**$31.8**
	1981	$29.8*	$26.0	$39.3*	$32.5
	1979	$27.1*	$24.3	$36.0*	$30.3
Mexico ($2.3)	**1983**	**$28.6***	**$15.9**	**$65.2***	**$33.7**
	1981	$61.4*	$31.0	$149.4*	$72.0
	1979	N.A.	N.A.	N.A.	N.A.

Sources: The Hay Group for compensation figures, TPFC for after-tax calculations, Population Reference Bureau for latest 1981 per capita gross national product figures. *Fortune estimate. **Includes Ontario Provincial.

What You See Isn't All of What They Get

In the worldwide salary sweepstakes, middle and upper middle managers in Switzerland and the U.S. are best off, at least in terms of take-home pay. Their good fortune is no secret. "Hold up a sign on the Champs-Elysées advertising a job opening in Geneva or New York and you'll be trampled by hordes," says Jean-Michel Beigbeder of Korn/Ferry's European operations. Cash compensation figures don't take perks into account, of course, and currency conversion skews the picture further in such countries as Japan and the United Kingdom. Since the pound, for example, has dropped from around $2 three years ago to $1.50 last year, dollar-converted salaries appear stagnant. Denominated in pounds, however—as they are paid—British salaries have been rising.

practices, which take into account a person's individual needs in addition to his age, seniority, and job position, reflect a paternalistic corporate bent. An employee with two children in college and a big mortgage, for instance, would get paid more than his childless colleague in a comparable job.

The Japanese corporation also takes care of its managers in other ways. Companies pay up to 50% of interest charges on mortgages for all employees, including managers. As an executive moves up the corporate ladder, his company provides him with a car and chauffeur, an increasingly fat expense account, and membership in exclusive golf clubs and social clubs known locally as "castles." James C. Abegglen, a vice president at the Boston Consulting Group's Tokyo office, recalls the situation of a Japanese executive he knows: "Each time he got promoted he moved to a better house. And as his expense account grew, the bars he'd visit would get better and the girls in the bars got better."

As the Japanese example suggests, you've got to think twice about salary comparisons and then quickly get beyond them. In looking just at dollars paid—or yen or pounds—you have to consider currency exchange rates and local taxes. You also have to look at what the money will buy in different countries, and at compensation other than cash.

THESE DAYS exchange rates make the salaries of American executives look better than they did just a few years ago. For example, according to data supplied by the Hay Group, five years ago U.S. middle managers ranked third or fourth—1979 figures aren't available for Switzerland—and last year second. (Hay defines a middle manager as someone on the order of a plant manager or regional sales manager, and an upper middle manager as a department head just below top management, such as a director of sales or engineering.) Mexican executives, meanwhile, got clobbered by the collapse of the peso. And yet, while the strong dollar has a big impact on salary comparisons, it may not have much effect on purchasing power—other than for imports from the U.S.—since foreign executives don't shell out dollars for the goods they buy.

Outside the U.S., and especially in countries such as Holland, Belgium, and Australia where tax rates are confiscatory, companies typically provide less cash and more perks (see box, page 25). For example, a Mexican executive earning $25,000 a year would have

PAUL CHESLEY

A bad day on the links *may be sweetened by the thought that the company pays for your membership in the club—in this case, Tokyo's exclusive Three Hundred Club. Membership is limited to 300 of the elite, many of whom occasionally like to talk a little business on the course.*

a company-supplied car and chauffeur, along with a specified amount of groceries and liquor delivered to his home twice monthly. In some countries executives take as much as 50% of their compensation packages in nontaxable perks.

"In Japan," says Kenichi Ohmae, managing director of McKinsey & Co.'s Tokyo office, "there's a tremendous disincentive to earn a lot in the form of money." Whereas the maximum tax rate in the U.S. hovers around 50%, in Japan the peak national rate is 75% for those who earn over $335,000. Taking into account municipal taxes, which will consume another 14% for anyone making $210,000 or above, the tax bite rises to 89%. The typical company president, whose taxable income is around $140,000, will pocket only $44,800 after he pays out 68% of his earnings in national and local taxes.

Companies operating in punitive tax environments work closely with lawyers and consultants to devise tax-avoiding compensation packages. For executives in northern Europe, for instance, company cars—and sometimes chauffeurs—are standard, with British companies furnishing the most BMWs, Jaguars, and Rolls-Royces. Similarly, almost all good-size companies in Mexico give cars to the top three levels of management. Says Carlos Rojas of Korn/Ferry International, the big executive search firm, "In Mexico and Brazil the matter of contention is what *kind* of car you'll give me, not if you'll give me one." A Mercury Grand Marquis is on the Mexican manager's most-wanted list.

Other perks frequently served up to executives abroad are housing and school allowances, club memberships, overseas travel allowances, financial counseling, and loans at preferential rates. In some countries, such as Argentina and Portugal, the most valuable perk an executive can get is having up to half his salary paid outside the country. Certain companies in Germany and Italy provide bodyguards and armored cars for their top executives.

German executives may retreat to company-owned hunting preserves to spend a week stalking deer and wild boar with local hunting guides. Many executives in Holland, Germany, and Australia receive a "representation allowance" that can add about 5% to 10% to their salaries. The presumption is that the executive and his family have to spend extra money on their home and wardrobes to present a public image appropriate to his employment position. The Australian executive's wife looks forward to receiving a "hospitality allowance" from the company for home entertaining—the company gives the money directly to her, not her spouse.

SOME COUNTRIES' tax authorities have become so avaricious, however, that the perk-granting strategy no longer works. In Sweden, for example, the Social Democrats have virtually put an end to non-cash incentives by taxing them as income. Indeed, taxes so equalize net take-home pay that Swedes jest that the only difference between an executive and his chauffeur is that the executive sits in the back seat.

In India the government specifies how much can be paid out both in perks and salary, even for companies not owned by the government. A chief executive can make as much as 90,000 rupees—about $8,900—in annual salary, and is entitled to perks not to exceed a value of $4,500 a year. That amount goes a long way, though: it provides for a

RESEARCH ASSOCIATE *Alison Bruce Rea*

rent-free house, a chauffeur-driven car, two full-time domestic servants, a round-the-clock house guard, and membership in various clubs. The Indian government does not allow stock options. "All this," says one Indian executive, "enables me to live comfortably while I work. It does not let me make any substantial savings."

ONE CONCLUSION from the evidence worldwide is that Americans seem to care more about cash, while executives elsewhere focus more on how they live, or are seen to live. In the opinion of David Harrop, author of a book entitled *World Paychecks*, Americans still exhibit a "fascination with monetary proof of success." Other experts attribute this concern to the greater pressures and job insecurity that managers in the U.S. supposedly suffer: meet your quarterly sales targets; keep the stock price buoyant; sorry, we're selling off your division. American managers change jobs more frequently, and are more likely to be fired—they may want the money in part to tide them over the bad times that might begin any day.

Europeans, by comparison, seem to take a more even view, foreseeing neither the washed-out bridges nor the giddy heights that haunt their American counterparts, but wanting to be sure that they make the trip in first-class. "A senior executive in Europe expects to be well looked after—not to become a millionaire," says Ian Sym-Smith, a partner at the Hay Group. Intangibles such as prestige—in the form of company-sponsored membership in exclusive clubs, the opportunity to take one's wife along on business trips, or even having a secretary for one's secretary—are important values to the European. Unlike the American executive who is content grabbing three to four days of vacation here and there, European and Latin American executives relish their four- to six-week holidays. Vacations are considered so essential in Austria, Belgium, Italy, Argentina, and Mexico that vacation bonuses—also known as 13th and 14th month bonuses—are mandatory either by law or by popular consensus.

Worldwide trends in compensation may be chipping away at these differences, though. The evidence suggests that compensation practices from country to country are becoming more, rather than less, similar. This is true for both levels of pay and forms of compensation. For one thing, the rate of pay has been rising faster in Europe than in the U.S. Says consultant Christopher Tilly, a Ward Howell International partner in London: "The ratio has changed dramatically in the last ten to 15 years, from one where we knew definitely that the American executive was higher paid, to a much narrower gap."

While cultural influences will probably keep Japanese salaries relatively modest for a long time, there has been a slight narrowing of the gap even there. Says Yoshihiro Mizuno, manager of international consulting at the Cambridge Corp. in Tokyo: "When seen over the long term as a trend, the compensation of Japanese executives is rising faster than that of the American businessman."

American-style performance-based compensation packages are gaining popularity. While U.S. companies have made aggressive use of incentives tied to performance for the last 20 years, Europeans have been opposed to the notion that a dangling financial carrot can induce someone to do the job better. Says consultant Tilly: "It used to be considered bad form to give performance-based bonuses to upper management. Acceptance involves a considerable cultural change in attitude. There was a funny idea of money in England. No one admitted that it mattered." David Orr, a management consultant at Employment Conditions Abroad Ltd. in London, cites the ferocious reaction of top executives at a big British firm when the company informed them that it wanted to implement an incentive plan. Snapped one executive: "This implies that you think I am not doing the best I can. I am insulted."

Says one British consultant, "It used to be considered bad form to give performance-based bonuses to upper management. There was a funny idea of money in England. No one admitted that it mattered."

Despite the resistance, however, target-oriented bonus schemes are popping up in compensation plans in the U.K., Germany, Switzerland, and France. Martin C. Lutyens, director of the Wyatt Co. U.K., suggests that the recent recession was a catalyst. Anxious to keep salary increases to a minimum, companies opted for what he calls a you-can-have-it-if-you-make-it policy. And for British executives, the bonus concept has become more palatable since the Thatcher government lowered the top tax rate from 83% to 60%. Says Lutyens: "The notion that more money doesn't affect performance is easiest to accept in a country where the extra money is going to go to taxes anyway."

In a survey of 40 or so of the largest British companies, the U.S. management consulting firm of Towers Perrin Forster & Crosby found that 27% now have performance-related schemes, up from 6% in 1978. This year the number is expected to rise still further. But in Britain, as in other European countries, the maximum potential bonus is much smaller than it is in the U.S.: up to 50% of an executive's salary, vs. 400% in the U.S. A few British companies are also experimenting with stock options, but these incentives remain virtually unheard of in the rest of the world.

Some experts see the European influence at work in the U.S. in the flexible benefit plans adopted by certain companies. Rather than prescribe a fixed amount of benefits and perks, more American companies are allowing their executives to decide for themselves how they want the top end of their compensation packages delivered. Company-supplied cars are also becoming more common in the U.S.

FOLLOWING the Japanese lead, many American companies are extending bonuses based on company performance deeper into the employee ranks. Says Robert Coscarello, a partner at Towers Perrin Forster & Crosby: "The old American philosophy that only top management should share in the goodies doesn't work anymore. The Japanese way is better."

Global competition seems to be gradually overpowering compensation differences that spring from cultural preferences. As managers travel they learn what others are up to and try to adopt the same practices at home. Newly minted MBAs from America's top business schools return to their native lands with tough compensation demands. Corporations with operations in many countries view compensation as a global, rather than local, issue, and set high standards that gradually become the norm. Pay practices in one country so influence those in another these days that a sort of international consensus on executive pay may gradually be emerging. "In essence," says Robert Coscarello, "the rest of the world is becoming more like America." All that remains is for the Japanese to start offering bonuses based on individual performance. If that happens, watch out. ◻

HOW MANAGERS IN FIVE COUNTRIES LIVE

■ Managers are, almost by definition, achievers, and it's rare to find one who doesn't think he's underpaid. The executives from five countries profiled below are no exception—most say salaries in their neck of the world are too low:

▶ **Peter Laister**, 55, managing director of Britain's Thorn EMI since 1979, became chief executive of the diversified electronics company in October. As managing director his salary was £88,000, or about $134,000; he'll get a substantial raise when he assumes the chairmanship in March. Performance-related bonuses, which Thorn began experimenting with a few years ago, have been modest, adding less than 20% to his salary. Laister likes the bonus concept, but admits others are skeptical. "Americans grow up believing that reward is related to effort," he says. "Europeans don't."

Peter Laister

Laister lives with his wife in a seven-bedroom brick house in a village 23 miles from London. His company furnishes him with the car of his choice—he now has a blue Rover Vitesse—and a chauffeur. What free time he has he spends gardening and taking photographs, and at least once a month he takes his 33-foot boat into the English Channel to fish. He has five weeks of vacation and usually spends a "quiet, homey" two weeks with his wife and friends in a warm climate, such as Majorca, Spain, or St. Lucia in the Caribbean.

▶ **Mitsuo Komori**, 42, is a short, lithe executive with black collar-length hair at Toyo Kogyo, the Japanese auto firm that makes the Mazda. As head of a 12-man section in charge of the company's domestic advertising, he has the rank of *kacho*, or section chief, reporting to a *bucho*, or department chief. The two men have desks alongside each other in an open office.

Komori says his total cash compensation is 8.5 million yen a year, or $35,780, low by American standards. He notes that it wouldn't make much difference whether he was good at his job or not, since Japanese firms don't pay according to results. "Executives are not paid that much more than line workers," he says a bit ruefully.

Komori lives with his wife and two children in suburban Saitama and commutes 75 minutes to his Tokyo office by bus and subway. Their house, which they bought a few years ago for $85,000, has three rooms downstairs and two rooms upstairs. Komori could have obtained a 4% to 5% housing loan from the company—available to all employees—but opted instead for an 8% bank loan rather than deal with company personnel at headquarters 500 miles away. "The whole business of arranging it is just too much sweat," he says.

Komori entertains lavishly in Tokyo's Ginza district several times a week at peak entertainment seasons. His company picks up colossal tabs—sometimes to the tune of $2,000—for such evenings. On weekends he plays tennis with his wife at a neighborhood court.

▶ **Ove Sundberg**, 50, has been president of KemaNobel, Sweden's largest chemical company, for 11 years. Last year his salary was about one million kronor, or $130,000. He drives a company-furnished Volvo 760; his wife, who owns a fashion boutique, drives a Honda. They live in an eight-room apartment in the exclusive Ostermalm section of Stockholm. In addition to their main residence, the Sundbergs own a summer cottage in an old fishing village, overlooking the waters of the Kattegat, which separates Sweden from Denmark. Sundberg prefers swimming in the sea to pools—"We formerly had a home with an inside pool but hardly ever used it," he says—and is an avid golfer. He is entitled by law to five weeks of vacation but usually takes only three to four. He generally spends at least one week skiing in Austria with his wife.

He won't say how much tax he pays, but suggests that an investment in a building project helps reduce the bite. "We love living in Sweden," he says. "Taxes are a nuisance, but we live a decent life. You can only eat one steak a day anyway."

▶ **Bodo Liebe**, 63, has been managing director of Klöckner-Humboldt-Deutz, one of West Germany's largest machinery companies, since 1975. He and his wife live in a spacious villa on a hilltop in Kettwig—between Düsseldorf and Essen—with a lovely view of forests, fields, and meadows. Their garden is the size of a small park. They share a passion for golf and collect Dutch paintings of the Romantic period.

WOLF P. PRANGE

Bodo Liebe

Like most Germans, Liebe will not talk about his income, but the German press estimates it at about 600,000 deutsche marks, or $235,000, not including bonus. With earnings from board seats, he probably makes around $370,000 in all.

Liebe has a company-furnished silver-gray Mercedes 500 SEL and a chauffeur. He entertains personal and business friends aboard a company-owned motor yacht on the Mediterranean, in the company's impressive guesthouse on the Rhine, and on golf courses in Scotland. The Liebes have a maid but do not need a butler since they prefer to take their guests to restaurants or have catered parties.

▶ **Robert van Duursen**, 53, is a deputy director at Heineken, the Dutch brewing company. His salary, including a fixed bonus and holiday allowance, is 180,000 guilders, or $63,000. "That puts me in the top 2.5% in Holland," he says.

Van Duursen and his wife live in a big brick house in the town of Bussum, 13 miles outside Amsterdam. In the U.S. their house would cost $300,000, he estimates. He has a five-week vacation and spends two weeks skiing in the winter and three weeks in a château in the south of France in the summer. "We do manual work to get away from the sherry and dry martini drinking," he says.

Van Duursen objects to Holland's social welfare system, saying that it consumes over 60% of the nation's income and is destroying the work ethic. Marginal taxes are as high as 70%. Despite such disadvantages, van Duursen thinks that Holland is a good country for kids to grow up in. Says he: "We're all grumbling, but no one's leaving."

Van Duursen's only perks are a car—currently a Ford Granada—and four cases of Heineken beer a month.